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NEW APPLICATION

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## BEFORE THE ARIZONA CORPORATION COMMISSION 17

WILLIAM MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

AZ CORP COMMISSION  
DOCUMENT CONTROL

E-01345A-02-0707

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR AN  
ORDER OR ORDERS AUTHORIZING IT TO ISSUE,  
INCUR, OR ASSUME EVIDENCES OF LONG-  
TERM INDEBTEDNESS; TO ACQUIRE A  
FINANCIAL INTEREST OR INTERESTS IN AN  
AN AFFILIATE OR AFFILIATES; TO LEND  
MONEY TO AN AFFILIATES OR AFFILIATES;  
AND TO GUARANTEE THE OBLIGATIONS OF AN  
AFFILIATE OR AFFILIATES

DOCKET NO. E-01345A-02-\_\_\_\_\_

APPLICATION

Pursuant to A.R.S. §§ 40-285; 40-301, *et seq.*; and A.A.C. R14-2-804, Arizona  
Public Service Company ("APS" or "Company") hereby requests one or more orders from  
the Arizona Corporation Commission ("Commission"):

- (a) authorizing APS to assume, issue, or incur up to \$500,000,000 in aggregate principal amount of Recapitalization Debt (as discussed and defined herein) in connection with the refinancing or recapitalization of costs incurred by Pinnacle West Capital Corporation ("Pinnacle West") and Pinnacle West Energy Corporation ("PWEC") in the financing of PWEC's construction of West Phoenix CC Units 4 and 5, Redhawk Units 1 and 2, and Saguaro CT Unit 3 (collectively referred to as the "PWEC Assets");
- (b) finding that such Recapitalization Debt will not be classified or treated as Continuing Debt (as discussed and defined below);
- (c) authorizing APS to guarantee the obligations (including principal, interest, and associated fees, charges and expenses)<sup>1</sup> of PWEC and/or PWCC ("APS Guarantees") up to an aggregate principal amount of \$500,000,000 (less any Recapitalization Debt) for a period not to exceed a weighted average life of 10 years;

<sup>1</sup> These items are also incurred by APS in any direct issuance of debt and are not unique to guarantees.

1 (d) finding that such APS Guarantees will not be classified or treated as  
2 Continuing Debt;

3 (e) authorizing APS to obtain a financial interest in PWEC or Pinnacle  
4 West in the form of an inter-affiliate loan, APS Guarantees, or a  
5 combination of the two up to a maximum aggregate principal amount of  
6 \$500,000,000; and

7 (f) authorizing APS to make such expenditures, sign and deliver  
8 such documents, and negotiate such terms and conditions with  
9 underwriters or selling agents, purchasers and/or lenders, including but  
10 not limited to those pertaining to terms, rates, and collateral  
11 requirements (if any), all as described herein, as may be reasonably  
12 necessary to economically effectuate the other authorizations granted  
13 by the Commission.

14 APS further requests that the Commission's Hearing Division issue a Procedural Order, as  
15 called for by Decision No. 65154 (September 10, 2002), establishing a procedural  
16 conference and a procedural schedule for timely consideration of this Application.

17 This Application is filed to address the serious and unique financial harm faced by  
18 APS, PWEC and Pinnacle West as a result of the Commission's "reversal of course" on  
19 the issue of APS generation asset divestiture. The damages to the Company and its  
20 affiliates resulting from their good faith efforts to comply with a long-standing  
21 Commission regulation mandating divestiture and their detrimental reliance on the  
22 promise of divestiture made in a Commission-encouraged, approved, and adopted  
23 Settlement Agreement ("1999 Settlement") are significant and should be promptly  
24 addressed by this Commission. The instant Application is just one step, but an important  
25 and necessary first step, in that process.<sup>2</sup>

## 26 INTRODUCTION

27 In Decision No. 65154, the Commission significantly modified those provisions of  
28 the 1999 Settlement directing the divestiture of APS generation to PWEC. PWEC was the  
29 APS generation affiliate created by Pinnacle West pursuant to and in compliance with

<sup>2</sup> The Company also intends to seek reconsideration of Decision No. 65154 within the period  
permitted by law.

1 Decision No. 61973 (October 6, 1999), which Decision had previously adopted and  
2 approved the 1999 Settlement.

3 Although Decision No. 65154 provides for the possibility of “unifying” the PWEC  
4 Assets with those of APS under the corporate name of APS, the mere change of legal title  
5 to the PWEC Assets from PWEC to APS, without more, does little to resolve the total  
6 bifurcation issue. This issue was identified last April in the Company’s Motion for  
7 Threshold Determination. The “unification” sought by APS in that Motion and testified to  
8 at the recent Track A hearing was the restoration of the Commission’s promise to provide  
9 a common financial and regulatory regime for all of the combined generation of APS and  
10 PWEC. With Decision No. 65154, the long-anticipated regulatory regime of unregulated  
11 generation competition is no longer possible. Traditional cost-of-service regulation, or an  
12 acceptable surrogate for such unregulated competition, must now be substituted as that  
13 common regulatory regime. It is that concept of “unification” that APS believes was  
14 postponed in the Commission’s deliberations on Decision No. 65154.<sup>3</sup> For this reason, the  
15 Company must now find a financial remedy rather than a structural remedy—one that will  
16 permit the PWEC Assets to remain at PWEC until the Commission determines the final  
17 rate treatment of the PWEC Assets.

18 By seeking this remedy, APS does not intend or desire to foreclose the possibility  
19 that it may seek to acquire all or part of the PWEC Assets in the future. APS may also  
20 propose that the PWEC Assets should be included in the Company’s rate base or  
21 otherwise afforded cost-of-service regulatory treatment to the extent the PWEC Assets are  
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23 <sup>3</sup> The Sixth Ordering Paragraph in Decision No. 65154, which was added by an amendment to the  
24 Recommended Order, when combined with the Administrative Law Judge’s pre-existing language in the  
25 Fourth Ordering Paragraph, would (by the Company’s interpretation) appear to effectively preclude the  
26 inclusion of the PWEC Assets in APS’ rate base at this time, despite other language in the Decision  
seeming to leave this issue open. This is because assets included in rate base cannot, as a practical matter,  
be “contestable” by the sort of competitive procurement process presently being discussed in Track B.

1 used to serve APS customers.<sup>4</sup> Indeed, these would be appropriate topics in the  
2 Company's upcoming 2003 general rate case. Decision No. 65154 specifically states that  
3 there will be no pre-judgement by the Commission of the eventual rate treatment of these  
4 assets. (Decision No. 65154 at p.34, lines 3-4.)

5 APS also wishes to make clear that this Application does not affect nor is it  
6 intended to affect the Commission's consideration of, or the Company's position on, any  
7 of the "Track B" issues identified in Commission Docket No. E-00000A-02-0051. This  
8 too was an express part of the Commission's order in Decision No. 65154. (*Id.* at pp.33-  
9 34, Tenth Ordering Paragraph.)

10 The Company did not support generation divestiture when Commission Staff first  
11 proposed it in 1998. APS also was aware that a start-up, stand-alone generation company  
12 would lack the initial cash flow necessary to support the investment-grade financing  
13 needed to be fully competitive in the market. Thus, APS was only willing to agree to the  
14 1999 Settlement on terms that allowed all APS-owned generation and anticipated future  
15 generation to enjoy an investment-grade rating.

16 For these reasons, the impact of Decision No. 65154 on PWEC is both inequitable  
17 and dramatic. Prior to Decision No. 65154, PWEC had an investment grade debt rating  
18 once divestiture was complete.<sup>5</sup> With no divestiture, or no prospect of a long-term  
19 purchase power agreement such as APS proposed last fall in substitution for full market  
20 dependence, PWEC is simply not sufficiently creditworthy under present market  
21 conditions absent credit support from APS. Under the best of market conditions, a start-up  
22 merchant generator with only some 2000 megawatts of localized, uncommitted, gas-fired

23 <sup>4</sup> If the PWEC Assets or any portion thereof were to be acquired by APS in the future, APS could  
24 receive appropriate credit for any amounts loaned to PWEC and then still outstanding.

25 <sup>5</sup> In its press release describing its contingent award to PWEC of a BBB+ rating, Fitch stated: "The  
26 generating assets and associated debt will be transferred to PWEC by December 31, 2002. The rating is  
contingent upon the successful transfer of a majority of APS' electric generating assets to PWEC."  
Emphasis supplied.

1 generation would not have the investment grade rating needed to compete with  
2 investment-grade companies. Being non-investment grade means more than just being  
3 unable to raise capital in bad markets (such as today) or doing so at significantly higher  
4 cost in good markets; it directly impacts the ongoing competitiveness of the enterprise.  
5 Thus, it should come as no surprise that APS would not have agreed to the 1999  
6 Settlement and that PWEC would never have constructed the PWEC Assets absent the  
7 promised unification of generation under the 1999 Settlement. In fact, PWEC would  
8 never have existed.

9 Pinnacle West is likewise adversely affected by Decision No. 65154. As the parent  
10 company of APS and PWEC, Pinnacle West was compelled to provide interim bridge  
11 financing for construction of the PWEC Assets. Because of the impending divestiture of  
12 APS generation to PWEC, the market always regarded this bridge financing as necessarily  
13 being only a temporary situation, i.e., one that would only be in place until the divestiture  
14 promised by the 1999 Settlement had been accomplished. Then, PWEC could recapitalize  
15 that debt on its own through long-term financing. In a very real sense, it was the 1999  
16 Settlement that Wall Street accepted as collateral for Pinnacle West's bridge financing.  
17 Indeed, it was in reliance on that 1999 Settlement that Pinnacle West has been permitted  
18 by the rating agencies to carry significantly more debt than likely would otherwise have  
19 been permitted by these same rating agencies without a downgrade.<sup>6</sup> But as noted above,  
20 the PWEC credit rating required for that permanent financing was itself always expressly  
21 contingent upon receipt by PWEC of the present APS generation assets pursuant to the  
22 provisions of Decision No. 61973 and A.A.C. R14-2-1615 (A) ["Rule 1615(A)"]. Project  
23 specific financing—a far more expensive option for PWEC even under good market

24  
25 <sup>6</sup> In a report dated September 10, 2002, Moody's (after noting the adverse implications of Decision  
26 No. 65154) stated: "The rating outlook [for Pinnacle West] is stable and assumes the Pinnacle bridge  
financing is refinanced at an operating subsidiary in the intermediate term. Failure to do so could have  
negative rating implications."

1 conditions and one that would have made the PWEC Assets non-competitive—is simply  
2 unavailable to PWEC under today's market conditions.

3       Given its debt burden and with no prospect of APS generation divestiture to  
4 PWEC, Pinnacle West's ability to refinance the aforementioned bridge financing of the  
5 PWEC Assets, on even a short-term basis and without a credit downgrading, is in serious  
6 question.<sup>7</sup> A credit downgrading would significantly increase Pinnacle West's own cost of  
7 capital. The historical cost of even a single level credit drop (from BBB to BBB- or from  
8 Baa2 to Baa3) would be some 150 basis points or over \$17,000,000 per year. The loss of  
9 investment grade rating altogether would add another 150 or more basis points to the  
10 damage caused. This amounts to approximately \$350,000,000 over a ten-year period.

11       It is also dangerous to assume that APS could remain wholly unaffected by these  
12 events. Some rating agencies, such as S&P, already evaluate the Company's credit quality  
13 in the overall context of Pinnacle West. And the Commission-induced financial disruption  
14 of the Company's parent corporation and generation affiliate, when combined with the  
15 unilateral revision to the 1999 Settlement ordered in Decision No. 65154, would  
16 undoubtedly add a significant regulatory risk premium to the Company's cost of obtaining  
17 and retaining capital.

18       The Company's Application is evidence of the Company's continued desire to find  
19 a solution to the need to permanently recapitalize the financing of the PWEC Assets, as  
20 was discussed at great length by the Commissioners during the August 27<sup>th</sup> Special Open  
21 Meeting that resulted in Decision No. 65154.<sup>8</sup> At the same time, it satisfies the stated

22 <sup>7</sup> Much of the Pinnacle West bridge financing will come due next summer, with the balance  
23 maturing in early 2004. Any issuance of debt, as is contemplated herein, will take several months to plan  
and even longer to actually implement. Thus, a ruling on the Application before the end of 2002 is needed.

24 <sup>8</sup> The Company had, in fact, previously suggested a purchase power agreement between APS and  
25 Pinnacle West covering the PWEC Assets. This would have resolved the refinancing problem described  
26 herein in a manner APS continues to believe would be more advantageous to the Company's customers  
over the long run. Acquisition by APS of the PWEC Assets and their future inclusion in the Company's  
rate base is also an option, but one not chosen by the Company at this time given the apparent rejection by  
the Commission of that option for the present and the Commission's admonition (in Decision No. 65154)

1 desire of some of the parties to maintain separation between APS' regulated assets and the  
2 PWEC Assets. Thus, as noted above, and in an effort to deal solely with the financing  
3 impact of the Commission's reversal on divestiture, the Company is proposing a financing  
4 solution that keeps the PWEC Assets at PWEC.

5 That solution is a loan from APS to PWEC (or potentially to Pinnacle West for the  
6 benefit of PWEC, if such is more cost-effective for APS and its affiliates), which is in turn  
7 secured by a note back to APS. Alternatively, there could be the guarantee by APS of  
8 PWEC obligations (or potentially those of Pinnacle West incurred on behalf of PWEC, if  
9 such is more cost-effective for both APS and its affiliates), which would then be secured  
10 by a reimbursement agreement in favor of APS. Or APS could use a combination of these  
11 two financial vehicles. In either or both cases, the amount of credit support would not  
12 exceed an aggregate principal amount of \$500,000,000 plus interest and the type of  
13 associated fees, expenses and charges previously discussed in this Application.

14 Therefore, and in support of this Application, the Company respectfully states as  
15 follows:

#### 16 **BACKGROUND**

17 1. APS, Pinnacle West and PWEC are corporations duly organized and  
18 existing under the laws of the State of Arizona. Their corporate headquarters are at 400  
19 North Fifth Street, Phoenix, Arizona 85004.

20 2. APS is a public service corporation principally engaged in furnishing  
21 electricity in the State of Arizona. APS provides either retail or wholesale electric service  
22 to substantially all of the state of Arizona, with the major exceptions of the Tucson  
23 metropolitan area and about one-half of the Phoenix metropolitan area. The Company also  
24 generates and, through the Pinnacle West marketing and trading division, sells and  
25 delivers electricity to wholesale customers in the western United States.

26 that APS not seek a ratemaking determination in this filing and that the filing not affect "the amount,  
timing, and manner of the competitive procurement process [in Track B]." (*Id.* at 34.)

1           3.     PWEC is principally engaged in the generation of electric power for sale to  
2     APS at wholesale and was created pursuant to Commission Decision No. 61973, which  
3     Decision also specifically found that the creation of PWEC was in the public interest.

4           4.     Pinnacle West is the parent company of both APS and PWEC.

5           5.     The attorneys for APS in this proceeding, and the individuals upon which all  
6     notices and pleadings should be served, are:

7                     Thomas L. Mumaw, Esq.  
8                     Pinnacle West Capital Corporation  
9                     Law Department  
10                    P.O. Box 53999  
11                    Mail Station 8695  
12                    400 N. 5<sup>th</sup> Street  
13                    Phoenix Arizona 85072-3999

14                    and

15                    Matthew P. Feeney, Esq.  
16                    Jeffrey B. Guldner, Esq.  
17                    Snell & Wilmer, LLP  
18                    One Arizona Center  
19                    400 E. Van Buren  
20                    Phoenix, Arizona 85004-0001.

#### 21                    THE BRIDGE DEBT

22           6.     As of July 1, 2002, Pinnacle West had incurred approximately  
23     \$635,000,000 in primarily short-dated debt ("Bridge Debt") to finance the construction of  
24     the PWEC Assets. This has raised total Pinnacle West debt as of that date to  
25     \$959,000,000. The Bridge Debt is expected to further increase to \$765,000,000 by the  
26     middle of 2003. Some \$550,000,000 of the aforementioned Bridge Debt will mature in  
27     2003. Another \$215,000,000 of Bridge Debt will mature in early 2004. The Company's  
28     efforts to refinance this Bridge Debt must necessarily begin some months in advance of  
29     the maturity date thereof.

30           7.     Based upon Decision No. 65154 in Track A of Docket No. E-0000A-02-  
31     0051, the Company will not be permitted to divest its generating assets to PWEC as



1 unconditionally authorized and required by Decision No. 61973 and Rule 1615(A). In  
2 view of the need to obtain recapitalization of the PWEC Assets through refinancing of the  
3 Bridge Debt and given the current generally favorable market conditions for the  
4 Company's issuance of long-term debt, APS proposes to provide for the recapitalization  
5 of the PWEC Assets through a direct loan or loans to PWEC or via the guarantee of  
6 PWEC obligations relating to the PWEC Assets.<sup>9</sup> The net proceeds of such APS loan(s)  
7 to PWEC or the net proceeds from any issuance of APS-guaranteed PWEC debt would be  
8 transferred by PWEC to Pinnacle West to repay or refinance a significant portion of the  
9 Bridge Debt.

#### 10 **THE CONTINUING LONG-TERM INDEBTEDNESS**

11 8. At June 30, 2002, APS had total outstanding long-term indebtedness in an  
12 aggregate principal amount of approximately \$2,206,780,000 (including current maturities  
13 of long-term indebtedness). A schedule showing the calculation of this amount is attached  
14 to this Application as Exhibit A.

15 9. Decision No. 55017 (May 6, 1986) (the "1986 Order") allows APS to,  
16 among other things, have outstanding at any one time (subject to a thirty-day "window"  
17 described in the 1986 Order) up to an aggregate principal amount of long-term  
18 indebtedness (including current maturities thereof) of \$2,698,917,000. A copy of the 1986  
19 Order is attached to this Application as Exhibit B.

20 10. The 1986 Order superseded the long-term indebtedness limitation granted to  
21 APS in Decision No. 54230 (November 8, 1984) ("the 1984 Order"). A copy of the 1984  
22 Order is attached to this Application as Exhibit C.<sup>10</sup>

23 <sup>9</sup> There is a possibility that the loans and/or guarantees might be to Pinnacle West for the reasons  
24 discussed in the Introduction section of this Application. By the reference to only PWEC in this and other  
25 paragraphs of the Application, APS does not mean to preclude that possibility but only to simplify the  
26 verbiage of the Application itself.

<sup>10</sup> The 1984 Order also included, among other things, authority for the Company to have, at any one  
time outstanding, up to \$576,301,000 in aggregate par value of the Company's preferred stock and to issue,  
reissue, refund, refinance, or roll-over short-term debt in an amount up to 7% of the Company's total

1           11. As noted in the 1986 Order, "[t]he financing flexibility sought herein and as  
2 previously granted by Decision No. 54230 [the 1984 Order] has permitted APS to take  
3 advantage of rapid and sometimes unanticipated changes in the capital markets."<sup>11</sup> As  
4 described herein, this "financing flexibility" has served the Company's customers and  
5 shareholders extremely well for almost 18 years by allowing APS to access frequently  
6 volatile capital markets in a timely and efficient manner, thereby reducing the Company's  
7 financing costs and eventually the cost of capital reflected in customers' rates. APS has  
8 continuously complied with each of the terms and conditions of the 1986 Order and of the  
9 1984 Order (to the extent not superceded by the 1986 Order) in all respects and is in  
10 compliance with such Orders as of the date of this Application.

11           12. Also based on the Company's outstanding long-term indebtedness as of  
12 June 30, 2002 and the present Continuing Debt limit, APS had the authority to incur up to  
13 \$492,137,000 in additional long-term debt. The amount of this debt margin (below the  
14 Continuing Debt limit) has varied significantly over the past 18 years, but has been a  
15 critical component of the financing flexibility afforded by the 1986 Order.

16           13. The Company requests that the Commission maintain the current margin  
17 under the Continuing Debt limit by finding that the Recapitalization Debt (as described  
18 and defined hereinafter) should not be classified or treated as Continuing Debt as set forth  
19 in the 1984 and 1986 Orders.

20 capitalization. *See* A.R.S. § 40-302(D). The 1986 Order did not affect these prior authorizations, and it is  
21 not intended that the authorization requested in this Application will supersede or limit, or in any other  
way affect, the 1984 Order and its effectiveness as to short-term debt and preferred stock.

22           <sup>11</sup> During the period from 1985 to the present, APS has issued over \$5,000,000,000 in long-term  
23 debt, taking advantage of every trough in the interest rate cycle and turning over the Company's entire  
debt capitalization more than twice. As a result, embedded weighted long-term debt costs (a component  
24 used to set APS rates) have dropped from 10.7% in 1985 to less than 6% today. In 1992 alone, the  
Company voluntarily refinanced \$650,000,000 of debt, producing total interest savings of some  
25 \$120,000,000 over the then remaining life of the refinanced debt. And the amount of long-term debt has  
actually dropped since 1985 to the present, despite the continued growth of the Company during that same  
26 period.

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1 on all or a portion of the Company's assets, third-party credit support or other form of  
2 security acceptable to both APS and the lender. Third-party credit support may include a  
3 letter of credit, draws on which may be reimbursable by the Company immediately or  
4 over time and, to such extent, may involve the issuance of a separate evidence or separate  
5 evidences of indebtedness. In this regard, APS notes that the 1984 Order states that any  
6 indebtedness arising to the issuer of a letter of credit which results from a draw under such  
7 letter of credit does not require separate or additional Commission approval under A.R.S.  
8 § 40-301, *et seq.*, if the underlying debt which the letter of credit secured was itself  
9 authorized by the Commission.<sup>13</sup>

10 16. The proceeds from the issuance of the Recapitalization Debt would be  
11 loaned by APS to PWEC in exchange for a note or notes (the "Repayment Note")  
12 reimbursing APS for the all-in cost of issuing and servicing the Recapitalization Debt over  
13 the term or terms of the Repayment Note. The Repayment Note would also require full  
14 repayment of principal and interest to APS.

15 17. In addition to the Recapitalization Debt, the balance of the funds needed for  
16 the permanent recapitalization of the PWEC Assets (estimated at approximately  
17 \$532,000,000) is presently planned to come from one or more equity infusions from  
18 Pinnacle West. These may be in the form of contribution(s) of (i) cash or property; (ii)  
19 forgiveness of indebtedness; (iii) internal generation of funds at PWEC; or (iv) a  
20 combination of the foregoing. This will result in an appropriately conservative capital  
21 structure for PWEC.

#### 22 THE GUARANTEE OPTION

23 18. As an alternative to the issuance or incurrence of all or a portion of the  
24 Recapitalization Debt, APS also seeks authorization to provide PWEC with a corporate

25 <sup>13</sup> This is because the draw down on the letter of credit would reduce the underlying debt, thus  
26 resulting in no overall increase in the amount of outstanding APS obligations.

1 guarantee or guarantees ("APS Guarantees") of indebtedness (including principal, interest,  
2 and associated fees, charges and expenses) up to an aggregate principal amount of  
3 \$500,000,000 for a period not to exceed a weighted average life of 10 years. Such APS  
4 Guarantees would be reduced dollar for dollar by the aggregate principal amount of any  
5 Recapitalization Debt such that the total of the two principal amounts could not exceed an  
6 aggregate principal amount of \$500,000,000.

7 19. In exchange for the APS Guarantees, APS shall receive a reimbursement  
8 agreement from PWEC and/or Pinnacle West providing for repayment to APS of all  
9 amounts (if any) paid by APS pursuant to such APS Guarantees.

10 **CONSEQUENCES IF THE INSTANT APPLICATION IS NOT GRANTED**

11 20. Pinnacle West is presently carrying more debt than its own capitalization  
12 and income could support under the ratings criteria established by national ratings  
13 agencies such as S&P, Moody's, and Fitch. Any attempt to refinance at Pinnacle West a  
14 significant portion of the aforementioned Bridge Debt would likely result in a loss of  
15 Pinnacle West's present credit rating.

16 21. The loss of Pinnacle West's present credit rating would raise its overall cost  
17 of issuing new debt, including the refinancings discussed in Paragraph No. 6, by as much  
18 as 150 basis points. This would translate into higher annual interest costs of some  
19 \$17,000,000. A loss of Pinnacle West's investment grade ratings altogether would more  
20 than double that amount.

21 22. PWEC's credit rating was expressly contingent on receiving the Company's  
22 generating assets, and without such rating, a public offering of debt at present is  
23 impossible. The alternatives of project or bank financing are more expensive under the  
24 best of market conditions and unavailable under present market conditions.

1           23.   Without permanent financing in place and with no potential to obtain  
2 financing on commercially reasonable terms, if at all, PWEC cannot effectively compete  
3 in the competitive wholesale market under the present credit constraints in that market.

4           24.   If PWEC could not recapitalize the PWEC Assets itself at any cost, it would  
5 be forced to sell them into the presently depressed market at a very substantial loss  
6 compared to both their cost and their going concern value under the assumption that  
7 PWEC had received the Company's generation assets as promised in Decision No. 61973.

8           25.   Timely Commission approval of the instant Application could mitigate all or  
9 a portion of the adverse consequences described above.

10                           **APS FINANCIAL CONDITION**

11           26.   The Company's most current public financial statements for the period  
12 ending June 30, 2002 are attached to this Application as Exhibit D.

13           27.   The Company's current credit ratings are shown in Exhibit E.

14           28.   Attached to this Application as Exhibit F are the estimated financial impacts  
15 of the increased debt authorizations sought herein under varying assumptions as to interest  
16 rates.

17           29.   Exhibit F also provides the relevant financial indicators for APS debt.  
18 Exhibit F shows these indicators both with and without any amounts received by APS  
19 under the Repayment Note or the reimbursement agreement.

20           30.   Exhibit F indicates that APS can accommodate the increased debt  
21 authorizations sought by the Application without a loss of the Company's overall credit  
22 quality or debt rating. Such debt would have an immaterial effect on the Company's cost  
23 of capital.

24           31.   APS would not be primarily liable for the payment of principal and interest  
25 under the APS Guarantees, but rating agencies would probably treat the APS Guarantees  
26 as APS debt in determining the amount of leverage and interest coverage for debt ratings

1 purposes. Thus, the financial analysis of the APS Guarantees on the Company would be  
2 very similar to that set forth in Exhibit F.

3 **GENERAL STATUTORY FINDINGS<sup>14</sup>**

4 32. In the Company's opinion, the proposed issuance or incurrence of the  
5 Recapitalization Debt, or the issuance of the APS Guarantees, all as contemplated herein,  
6 are for lawful purposes which are within its corporate powers and are compatible with the  
7 public interest, with sound financial practices, and with the proper performance by the  
8 Company of service as a public service corporation and will not impair its ability to  
9 perform that service.

10 33. APS is further of the opinion that the foregoing authorizations, all as  
11 contemplated herein, are reasonably necessary or appropriate for such purposes and that  
12 such purposes, except as otherwise set forth herein, are not wholly or in part, reasonably  
13 chargeable to the Company's operative expenses or to income. To the extent that the  
14 purposes set forth herein may be considered reasonably chargeable to operative expenses  
15 or to income, the Company requests that the order or orders of the Commission in this  
16 matter authorize such charge or charges.

17 **NOTICE, TIMING, AND EFFECTIVE DATE OF COMMISSION ORDER**

18 34. APS requests that notice of the filing of this Application be given in  
19 conformity with A.R.S. § 40-302 by a single publication of such notice in a newspaper of  
20 general circulation within its electric service area. APS will either cause such notice to be  
21 given or will agree to reimburse the Commission for any costs incurred by the  
22 Commission in preparing and distributing such notice.

23 35. APS requests issuance of the order or orders sought by this Application by  
24 December 31, 2002.

25 \_\_\_\_\_  
26 <sup>14</sup> These findings are required by A.R.S. §§ 40-301 and 40-302. They are standard "boilerplate" in  
all financing orders of the Commission.

1           36.    APS requests that the order or orders sought by this Application become  
2 effective immediately upon the issuance thereof.

3                                   **PRAYER FOR RELIEF**

4           WHEREFORE, the Company asks that the Commission cause notice of the filing  
5 of this Application to be given as above-requested; issue the Procedural Order described  
6 in Decision No. 65154; hold such hearing or hearings at a time or times to be specified by  
7 such Procedural Order, and making such inquiry or investigation as the Commission may  
8 deem of assistance; make any findings required by law relative to purposes of the issuance  
9 and incurring of the Recapitalization Debt, and/or the issuance by the Company of the  
10 APS Guarantees, all as contemplated herein; and thereafter make one or more  
11 immediately effective orders which, together:

- 12                   (i)    authorize the Company to assume, issue, or incur up to  
13                       \$500,000,000 in aggregate principal amount of  
                      Recapitalization Debt;
- 14                   (ii)   authorize the Company to determine the terms  
15                       associated with the Recapitalization Debt, including  
16                       whether any portion of the Recapitalization Debt will  
                      be secured by all or a portion of the Company's assets;
- 17                   (iii)   authorize the Company to provide the APS Guarantees  
                      in accordance with the Application;
- 18                   (iv)   authorize the Company to determine the terms  
19                       associated with the APS Guarantees, including whether  
20                       any portion of the APS Guarantees will be secured by  
                      all or a portion of the Company's assets;
- 21                   (v)    provide that the Recapitalization Debt and the APS  
22                       Guarantees will not be classified or counted as  
                      Continuing Debt;
- 23                   (vi)   find that the issuance and incurrence of  
24                       Recapitalization Debt, and the issuance of the APS  
25                       Guarantees are reasonably necessary or appropriate for  
26                       the purposes set forth in this Application and that such  
                      purposes are within those permitted by A.R.S. §40-  
                      301, *et seq.*;



- 1 (vii) permit such purposes to the extent they may be  
2 reasonably chargeable to operative expenses or to  
3 income and allow the payment of related expenses as  
4 contemplated herein; and  
5 (viii) authorize APS to obtain a financial interest in PWEC  
6 or Pinnacle West in the form of an inter-affiliate loan,  
7 APS Guarantees, or a combination of the two up to a  
8 maximum aggregate principal amount of  
9 \$500,000,000; and  
10 (ix) authorize APS to make such expenditures, sign and  
11 deliver such documents, and negotiate such terms and  
12 conditions with underwriters or selling agents,  
13 purchasers and/or lenders, including but not limited to  
14 those pertaining to terms, rates, and collateral  
15 requirements (if any), all as described herein, as may  
16 be reasonably necessary to economically effectuate the  
17 other authorizations granted herein; and  
18 (x) grant the Company such additional relief as is  
19 appropriate under the circumstances.

20 RESPECTFULLY SUBMITTED this 16<sup>th</sup> day of September 2002.

21 SNELL & WILMER

22 By: 

Matthew P. Feeny, Esq.  
Jeffrey B. Guldner, Esq.

23 and

24 PINNACLE WEST CAPITAL  
CORPORATION LAW DEPARTMENT

25 By: 

Thomas L. Mumaw, Esq.

26 Attorneys for Arizona Public Service  
Company

# Exhibit A

**Arizona Public Service**  
**Schedule of Long Term Debt and Current Maturities**  
**As of June 30, 2002**

<u>FIRST MORTGAGE BONDS</u>	<u>DATE OF ISSUE</u>	<u>DATE OF MATURITY</u>	<u>DEBT OUTSTANDING</u>
8.000% SERIES	02/09/93	02/01/25	33,075,000
7.250% SERIES	08/10/93	08/01/23	54,150,000
5.500% SERIES PC	09/02/93	08/15/28	25,000,000
5.875% SERIES PC	09/02/93	08/15/28	141,150,000
5.875% SERIES PC	09/02/93	08/15/28	12,850,000
6.625% SERIES	03/02/94	03/01/04	80,000,000
6.75% SENIOR NOTES	11/22/96	11/15/06	83,695,000
SUB TOTAL			\$ 429,920,000

P.C. BONDS

1994 A MARICOPA	05/25/94	05/01/29	45,000,000
1994 B MARICOPA	05/25/94	05/01/29	45,000,000
1994 C MARICOPA	05/25/94	05/01/29	57,000,000
1994 D MARICOPA	05/25/94	05/01/29	35,000,000
1994 E MARICOPA	05/25/94	05/01/29	35,000,000
1994 F MARICOPA	05/25/94	05/01/29	36,980,000
1994 A FARMINGTON	05/25/94	05/01/24	49,400,000
1994 B FARMINGTON	09/14/94	09/01/24	65,750,000
1994 C FARMINGTON	09/14/94	09/01/24	31,500,000
1994 A COCONINO	10/12/94	10/01/29	32,650,000
1996 A COCONINO	12/12/96	12/01/31	6,710,000
1998 COCONINO	11/16/98	11/01/33	16,870,000
1999 COCONINO	04/07/99	04/01/34	20,000,000
SUB-TOTAL			\$ 476,860,000

OTHER LONG TERM DEBT

6.25% UNSECURED NOTE	1/13/98	1/15/05	\$ 100,000,000
5.875% UNSECURED NOTE	2/24/99	2/15/04	\$ 125,000,000
7.625% UNSECURED NOTE	08/07/00	8/1/005	\$ 300,000,000
6.375% UNSECURED NOTE	10/05/01	10/15/11	\$ 400,000,000
6.50% UNSECURED NOTE	3/1/2002	3/1/2012	\$ 375,000,000
SUB-TOTAL			\$ 1,300,000,000

<b>TOTAL LONG TERM DEBT &amp; CURRENT MATURITIES</b>	<b>2,206,780,000</b>
--	----------------------

# EXHIBIT B

Arizona Corporation Commission

DOCKETED

MAY 06 1986

BEFORE THE ARIZONA CORPORATION COMMISSION

RENZ D. JENNINGS  
CHAIRMAN  
MARCIA WEEKS  
COMMISSIONER  
SHARON B. MEGDAL  
COMMISSIONER

DOCKETED BY

C.M.

IN THE MATTER OF THE APPLICATION )  
OF ARIZONA PUBLIC SERVICE COMPANY )  
FOR AN ORDER OR ORDERS AUTHORIZING IT )  
TO ISSUE, INCUR AND AMEND EVIDENCES OF )  
LONG-TERM INDEBTEDNESS, TO ISSUE OR )  
INCUR NUCLEAR FUEL DEBT, AND TO )  
EXECUTE A NEW SUPPLEMENTAL INDENTURE OR )  
INDENTURES. )

DOCKET NO. U-1345-86-003

DECISION NO. 55017

ORDER

Open Meeting  
April 30, 1986  
Phoenix, Arizona

BY THE COMMISSION:

On December 31, 1985, Arizona Public Service Company ("APS") filed an Application with the Arizona Corporation Commission ("Commission") wherein APS sought authorization to, among other things, implement various financings.

On February 25, 1986, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene herein. Said Application was granted by Procedural Order dated March 4, 1986.

On April 17, 1986, the Commission's Utilities Division Staff ("Staff") filed a Memorandum recommending approval without hearing of the proposed financing program. Attached thereto was written testimony by a Staff Senior Rate Analyst, which testimony supported Staff's overall recommendation.

\* \* \* \* \*

Having considered the Application, the exhibits and draft testimony submitted therewith, as well as Staff's memorandum and attached testimony, and being fully advised in the premises, the Commission finds, concludes and orders that:

FINDINGS OF FACT

1  
2 1. APS is an Arizona corporation engaged in providing electric service  
3 to the public within portions of Arizona pursuant to authority granted by this  
4 Commission.

5 2. By its Application, as supplemented by APS's draft testimony in this  
6 matter, APS requests one or more orders seeking the following:

7 (a) authorization to issue, sell, and incur in 1986  
8 or pursuant to lending, purchase, or underwriting  
9 commitments obtained in 1986, in one or more  
10 transactions, up to \$275,000,000 in aggregate  
11 principal amount of additional evidences of long-term  
12 indebtedness (all such evidences of indebtedness  
13 hereinafter being referred to as "New Debt"),  
14 it being specified that the nature and terms of all  
15 such issuances and sales of New Debt would be determined  
16 by APS by reference to conditions in the financial  
17 markets at the time or times of commitment;

18 (b) authorization to increase the long-term indebtedness  
19 limitation authorized in the Commission's Order in  
20 Decision No. 54230, dated November 8, 1984, that allowed  
21 APS, among other things, to have, at any one time  
22 outstanding in 1985 or thereafter, long-term indebtedness  
23 (including current maturities thereof) in an aggregate  
24 principal amount of \$2,374,093,000, so as to allow  
25 APS to have, at any one time outstanding, up to an  
26 aggregate principal amount of long-term indebtedness  
27 (including current maturities thereof) of \$2,698,917,000.  
28 such authorization to permit any redemptions, refinancings.

1 refundings, renewals, reissuances and roll-overs of any  
2 such outstanding indebtedness, the incurrence or  
3 issuance of any additional long-term indebtedness, and the  
4 amendment or revision of any terms of provisions of or  
5 relating to any long-term indebtedness, as long as  
6 total long-term indebtedness at any one time outstanding  
7 does not exceed (without further Commission authorization)  
8 \$2,698,917,000 during any period of more than thirty days,  
9 it being specified that the nature and terms of all such  
10 issuances and sales of such long-term indebtedness  
11 would be determined by APS by reference to conditions  
12 in the financial markets at the time or times of such  
13 issuances (all such long-term indebtedness to be issued  
14 pursuant to this authorization being herein referred to  
15 as "Continuing Debt"), and such authorization to  
16 supercede the long-term indebtedness limitation  
17 authorized by Decision No. 54230.

18 (c) authorization in connection with providing security  
19 for any New Debt or Continuing Debt, to execute and  
20 deliver one or more new supplemental indentures to its  
21 Mortgage and Deed of Trust in the event it is  
22 deemed appropriate by APS to do so;

23 (d) authorization for APS to finance its nuclear fuel  
24 requirements in connection with the operation of  
25 the Palo Verde Nuclear Generating Station by  
26 instituting a financing program involving the issuance  
27 of APS of commercial paper, intermediate-term notes,  
28

1 and/or other evidences of indebtedness in an aggregate  
2 principal amount of up to \$200,000,000, all of which  
3 may constitute long-term debt (collectively, the  
4 "Nuclear Fuel Debt"). and in connection therewith, to  
5 issue or incur evidences of indebtedness in 1986 or  
6 thereafter, and to refund or roll-over all or a portion  
7 of the Nuclear Fuel Debt, any short-term debt to be issued  
8 in connection therewith to be in addition to short-term  
9 debt previously authorized by the Commission or per-  
10 mitted by A.R.S. Section 40-302.D, it being specified  
11 that the nature and terms of any issuances and sales  
12 of Nuclear Fuel Debt would be determined by APS by  
13 reference to conditions in the financial markets at the  
14 time or times of commitment.

15 3. On April 17, 1986, Staff filed a Memorandum and written testimony  
16 supporting the Application and recommending summary approval thereof.

17 4. The New Debt and the Continuing Debt will be utilized for APS's  
18 construction program, the refinancing, retirement, or redemption of outstanding  
19 securities, the repayment of short-term debt which previously financed  
20 construction projects, and, if necessary, the payment of certain of APS's  
21 working captial and other cash requirements. The Nuclear Fuel Debt will be  
22 used to finance APS's nuclear fuel requirements for the Palo Verde Nuclear  
23 Generating Station, and/or to refund or roll-over the Nuclear Fuel Debt.

24 5. The costs of nuclear fuel will be charged to operating expense or  
25 income as such fuel is consumed.

26 6. The Nuclear Fuel Debt would not exceed \$200,000,000 through a  
27 combination of intermediate-term domestically issued debt (not to exceed  
28 \$50,000,000), a European commercial paper program, and a short-term European

1 loan facility. The Nuclear Fuel Debt may exceed APS's net nuclear fuel assets  
2 (up to the \$200,000,000 limit).

3 7. The exact timing of any issuances to be made pursuant to the  
4 requested authorization would be dictated by then prevailing market conditions  
5 as would the terms and conditions of such issuances, including the type of  
6 security (mortgage, deed of trust, letter of credit, standby purchase  
7 agreement, etc.), if any, provided therefor.

8 8. The reasonableness of such timing as well as of terms and conditions  
9 of sale would be governed by the exercise in good faith of prudent business  
10 judgement.

11 9. APS does not anticipate that it will actually have to issue all of  
12 the debt for which authorization is being sought.

13 10. The financing flexibility sought herein and as previously granted by  
14 Decision No. 54230 has permitted APS to take advantage of rapid and sometimes  
15 unanticipated changes in the capital markets.

16 11. Upon the issuance of all the debt for which authorization is sought  
17 herein, APS would have adequate operating income to service such debt under  
18 existing rates for electric service.

19 12. After issuance of all the debt for which authorization is sought  
20 herein, APS's financial ratios as to interest coverage, long-term debt, cash  
21 flow, and common equity would be below those of comparable investment grade  
22 investor-owned utilities, thus creating some risk of down-rating to  
23 sub-investment grade.

24 13. Although such a down-rating would be significantly harmful to both  
25 APS and its ratepayers, the risk of its occurrence is small and can be further  
26 reduced by either APS receiving rate relief in its pending rate application or  
27 by a reduction in discretionary expenditures or by a combination of both.

28 14. There is no reason to believe that any other form of long-term

1 financing would on a risk adjusted basis prove to be less expensive to APS and  
2 its ratepayers.

3 15. With the possible exception of the Nuclear Fuel Debt and the payment  
4 of certain of APS's working capital and other cash requirements, none of the  
5 purposes for which debt is to be issued pursuant to the authorization sought  
6 herein is reasonably chargeable to operating expense or income.

7 16. The proposed financing and the authorizations in connection  
8 therewith are reasonably necessary for the purposes set forth herein and in the  
9 Application.

10 17. The proposed financing program is compatible with sound financial  
11 practices and with APS's obligations as a public service corporation and will  
12 not impair its ability to provide service to the public.

13 18. The proposed financing program has been approved by APS's board of  
14 directors.

#### 15 CONCLUSIONS OF LAW

16 1. APS is a public service corporation within the meaning of Article XV  
17 of the Arizona Constitution and A.R.S. §§40-301, et seq.

18 2. The Commission has jurisdiction over APS and of the subject matter  
19 of the Application.

20 3. The proposed financing plan, as described herein and in APS's  
21 Application, is for lawful purposes within the corporate powers of APS and is  
22 compatible with the public interest.

#### 23 ORDER

24 IT IS THEREFORE ORDERED that Arizona Public Service Company be, and the  
25 same is hereby authorized:"

26 (a) to issue, sell, and incur up to \$275,000,000 in aggregate  
27 principal amount of New Debt, to issue, sell, and incur the  
28 Continuing Debt, and to amend the terms and provisions of



1 outstanding long-term indebtedness:

2 (b) to execute and deliver one or more supplemental indentures to  
3 the Arizona Public Service Company's Mortgage and Deed of Trust  
4 as may be deemed appropriate by Arizona Public Service Company  
5 in connection with the New Debt and Continuing Debt:

6 (c) to issue, sell, and incur up to \$200,000,000 in aggregate  
7 principal amount of Nuclear Fuel Debt: and,

8 (d) to pay related expenses, all as contemplated in the Application  
9 and by the exhibits and testimony filed in connection  
10 therewith.

11 IT IS FURTHER ORDERED that Arizona Public Service Company is hereby  
12 authorized to sign and deliver such documents and to engage in such acts as are  
13 reasonably necessary to effectuate the authorization granted hereinabove.

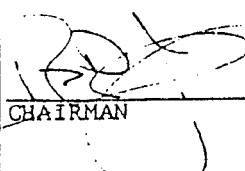
14 IT IS FURTHER ORDERED that the purposes for which the proposed issuances  
15 of New Debt and Continuing Debt are herein authorized are to augment the funds  
16 available from all sources to finance Arizona Public Service Company's  
17 construction program, to redeem or retire outstanding securities, to repay or  
18 refund other outstanding long-term debt, to repay short-term debt which has  
19 previously financed construction projects, and, if necessary, to meet certain  
20 working capital and other cash requirements, regardless of the extent to which  
21 such purposes may be reasonably chargeable to operative expenses or to income.

22 IT IS FURTHER ORDERED that the purposes for which the proposed issuances  
23 of Nuclear Fuel Debt are herein authorized are to finance the Arizona Public  
24 Service Company's nuclear fuel requirements in connection with the operation of  
25 the Palo Verde Nuclear Generating Station, and/or to refund or roll-over the  
26 Nuclear Fuel Debt, which purposes are hereby specifically authorized regardless  
27 of the extent to which they may be reasonably chargeable to operative expenses  
28 or to income.

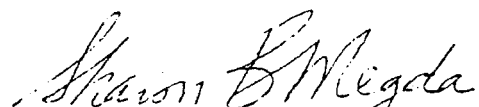
1 IT IS FURTHER ORDERED that the Commission's authorization of the above  
2 financing does not constitute approval of any particular expenditure of the  
3 proceeds derived thereby for the purposes of setting just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective  
5 immediately.

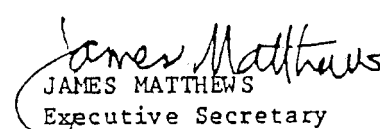
6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7  
8   
9 CHAIRMAN

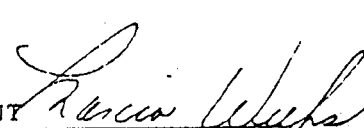
COMMISSIONER

10   
COMMISSIONER

11 IN WITNESS WHEREOF, I, JAMES MATTHEWS, Executive  
12 Secretary of the Arizona Corporation Commission, have  
13 hereunto set my hand and caused the official seal of  
14 this Commission to be affixed at the Capitol, in the  
15 City of Phoenix, this 6 day of May,  
16 1986.

17   
JAMES MATTHEWS

Executive Secretary

18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
DISSENT   
TLM/djp

# EXHIBIT C

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

NOV 8 1984

DOCKETED BY

*dent*

RICHARD KIMBALL  
CHAIRMAN  
JUNIOUS HOFFMAN  
COMMISSIONER  
MARIANNE M. JENNINGS  
COMMISSIONER

DOCKET NO. U-1345-84-220

DECISION NO. 54230

OPINION AND ORDER

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR AN )  
ORDER AUTHORIZING IT TO ISSUE, INCUR )  
AND AMEND EVIDENCES OF LONG-TERM )  
INDEBTEDNESS, TO EXECUTE A NEW )  
SUPPLEMENTAL INDENTURE OR INDENTURES, )  
TO ISSUE SHARES OF COMMON AND PREFERRED )  
STOCK, AND TO ISSUE AND INCUR EVIDENCES )  
OF SHORT-TERM INDEBTEDNESS. )

DATE OF HEARING: October 4, 1984

PLACE OF HEARING: Phoenix, Arizona

PRESIDING OFFICER: Thomas L. Mumaw

IN ATTENDANCE: Marianne M. Jennings, Commissioner

APPEARANCES: Jaron B. Norberg, Senior Vice-President and Corporate  
Counsel; Snell & Wilmer, by Steven M. Wheeler and James  
A. Martin, on behalf of Arizona Public Service Company

Timothy M. Hogan, Attorney, Legal Division, on behalf  
of the Arizona Corporation Commission Staff

Roger A. Schwartz, Attorney, on behalf of the  
Residential Utility Consumer Office

Tim Gerin, Intervenor, in propria persona

BY THE COMMISSION:

On September 12, 1984, Arizona Public Service Company ("Company") filed an  
Application ("Application") with the Commission requesting an order authorizing  
the Company, among other things, to implement various proposed financings  
during 1984 and subsequent years.

Motions requesting Leave to Intervene herein were filed by Robert Foucher  
and Tim Gerin, as well as by the Residential Utility Consumer Office. Said  
Motions were granted by the Presiding Officer herein prior to the scheduled  
hearing on the Application held at the Commission's offices in Phoenix,

1 Arizona, on October 4, 1984.

2 \* \* \* \* \*

3 Having considered the entire record herein and being fully advised in the  
4 premises, the Commission finds, concludes, and orders that:

5 FINDINGS OF FACT

6 1. The Company is an Arizona corporation engaged in providing electric  
7 and gas service to the public within various portions of Arizona pursuant to  
8 authority granted by this Commission.

9 2. By its Application, the Company requests one or more orders  
10 approving various financings and certain other matters as follows:

11 (a) authorization to issue and sell (or, in the case of the below  
12 mentioned indebtedness, to otherwise incur), in 1985 or  
13 pursuant to firm lending, purchase or underwriting  
14 commitments obtained in 1985, in one or more transactions,  
15 (i) up to \$400,000,000 in aggregate principal amount of  
16 additional evidences of long-term indebtedness, (ii) up to  
17 \$75,000,000 in par value of one or more new series of  
18 additional Serial Preferred Stock and (iii) up to 2,000,000  
19 new shares of its Common Stock, \$2.50 par value, (all such  
20 evidences of indebtedness, shares of Preferred Stock and  
21 shares of Common Stock hereinafter being referred to as "New  
22 Debt," "New Preferred Stock" and "New Common Stock,"  
23 respectively), it being specified that the nature and terms  
24 of all such issuances and sales of New Debt, New Preferred  
25 Stock and New Common Stock would be determined by the Company  
26 by reference to conditions in the financial markets at the  
27 time or times of commitment;

28 (b) authorization to issue or incur, in 1984 or thereafter,

1 evidences of indebtedness, long or short-term, in the  
2 aggregate principal amount of up to \$75,000,000 (over and  
3 above amounts previously authorized by this Commission), and  
4 to refinance all or a portion of such amount, in connection  
5 with the proposed program to finance and/or refinance  
6 pollution control facilities located at the Palo Verde  
7 Nuclear Generation Station ("Palo Verde"), it being specified  
8 that the nature and terms of all such issuances of such  
9 indebtedness would be determined by the Company by reference  
10 to conditions in the financial markets at the time or times  
11 of commitments (all such evidences of indebtedness to be  
12 issued pursuant to this authorization being herein referred  
13 to as the "Pollution Control Financings");

14 (c) authorization to have, at any one time outstanding in 1985 or  
15 thereafter, (i) long-term indebtedness including current  
16 maturities thereof in an aggregate principal amount of  
17 \$2,374,093,000 (including the New Debt and long-term  
18 Pollution Control Financings), and (ii) \$576,301,000 in  
19 aggregate par value of the Company's preferred stock  
20 (including the New Preferred Stock), such authorization to  
21 permit any redemptions, refinancings, refundings, renewals,  
22 reissuances and rollovers of any such outstanding  
23 indebtedness or preferred stock, the incurrence or issuance  
24 of any additional long-term indebtedness or preferred stock,  
25 and the amendment or revision of any terms or provisions of  
26 or relating to any long-term indebtedness, as long as total  
27 long-term indebtedness or preferred stock at any one time  
28 outstanding does not exceed the levels set forth in this

1 subparagraph (c), it being specified that the nature and  
2 terms of all such issuances and sales of such long-term  
3 indebtedness or preferred stock would be determined by the  
4 Company by reference to conditions in the financial markets  
5 at the time or times of such issuances (all such long-term  
6 indebtedness and preferred stock to be issued pursuant to  
7 this authorization being herein referred to as "Continuing  
8 Debt" and "Continuing Preferred Stock," respectively);

9 (d) authorization in connection with providing security for any  
10 New Debt, Continuing Debt, or Pollution Control Financings,  
11 to execute and deliver one or more new supplemental  
12 indentures to its Mortgage and Deed of Trust, and to enter  
13 into and issue evidences of indebtedness pursuant to one or  
14 more letter of credit or other security arrangements or  
15 agreements, in the event it is deemed appropriate by the  
16 Company to do so, including, without limitation and  
17 specifically with respect to any Pollution Control  
18 Financings, any reimbursement agreements and standby bond  
19 purchase agreements;

20 (e) authorization to issue, incur and sell, and to have  
21 outstanding at any one time in 1984 or thereafter, notes and  
22 indebtedness payable at periods of not more than twelve  
23 months after the date incurred or issued (and not separately  
24 authorized by any Order of this Commission) ("Short-Term  
25 Debt") in an amount up to seven (7) percent of the Company's  
26 total capitalization, and to reissue, renew and resell any  
27 such Short-Term Debt and to refund, refinance or rollover any  
28 such Short-Term Debt with or into additional Short-Term Debt

1 so long as such seven (7) percent limit is not exceeded, it  
2 being specified that the nature and terms of all such  
3 issuances and incurrences of such Short-Term Debt would be  
4 determined by the Company by reference to conditions in the  
5 financial markets at the time or times of such issuances or  
6 incurrences (any such Short-Term Debt to be issued pursuant  
7 to this authorization being herein referred to as "Authorized  
8 Short-Term Debt");

9 (f) authorization to borrow funds pursuant to a credit agreement  
10 dated as of May 15, 1984 ("Credit Agreement") among the  
11 Company and various banks, for the term of that Credit  
12 Agreement and any extensions or renewals thereof, such  
13 borrowings, to the extent they are long-term, to be  
14 authorized and allowed in addition to and over and above the  
15 Continuing Debt limitation, and, to the extent repayable at  
16 periods of not more than twelve months after the date of  
17 borrowing, to be authorized and allowed in addition to and  
18 over and above (i) any indebtedness which may be incurred by  
19 the Company pursuant to Arizona Revised Statutes Section  
20 40-302(D), and (ii) any Authorized Short-Term Debt;

21 (g) confirmation that (i) letters of credit securing any  
22 indebtedness or security of the Company constitute evidences  
23 of indebtedness only to the extent of draws thereon, (ii) the  
24 indebtedness which arises from a draw under any such letter  
25 of credit is authorized to the extent thereof, and does not  
26 require separate or additional approval or authorization, if  
27 the issuance of the indebtedness or security which the letter  
28 of credit secures was authorized by the Commission, and (iii)

1 the indebtedness which arises from a draw under any such  
2 letter of credit does not require authorization as any other  
3 type of indebtedness or security other than that indebtedness  
4 or security which the letter of credit secures and does not  
5 reduce or apply against any authorization for any other type  
6 of indebtedness or security.

7 3. The Company intends to use the net proceeds from the sale of New  
8 Debt, New Preferred Stock and New Common Stock, and the issuance of Continuing  
9 Debt and Continuing Preferred Stock for its construction program, the  
10 redemption or retirement of outstanding securities, the repayment or refunding  
11 of other outstanding long-term debt, and the repayment of short-term debt which  
12 previously financed construction projects.

13 4. In the event any portion of the New Debt or Continuing Debt takes  
14 the form of indebtedness owed to, or the guarantee of indebtedness owed by, the  
15 Company's wholly-owned finance subsidiary, a portion of the New Debt or  
16 Continuing Debt may be incurred for the purpose of contributing to the capital  
17 of such subsidiary to maintain its debt to equity ratio at a satisfactory  
18 level.

19 5. Any amendments to the terms and provisions of any long-term  
20 indebtedness shall be for the purpose of improving terms or cost thereof to the  
21 Company or obtaining other benefits or advantages for the Company.

22 6. The proceeds of any issuance, sale, or subsequent refunding of  
23 Pollution Control Financings will be used to pay construction costs of  
24 pollution control facilities at Palo Verde, to reimburse the Company for such  
25 construction costs previously incurred, and/or to refund any pollution control  
26 financing or financings then in effect.

27 7. The Company intends to use the proceeds from the issuance or  
28 incurrence of the Authorized Short-Term Debt to augment funds available the



1 Company to finance the Company's construction program, to maintain and provide  
2 an adequate level of working capital, to contribute capital to the Company's  
3 finance subsidiary as necessary to maintain its debt to equity ratio at a  
4 satisfactory level, and to refund, refinance, rollover, renew or reissue any  
5 notes or indebtedness payable at periods of not more than twelve months after  
6 the date issued or incurred and otherwise issued or incurred for proper  
7 purposes.

8 8. The Company intends to use funds available under the Credit  
9 Agreement as a standby line of credit in the event of any disruptions in the  
10 capital markets, and, as such, these funds may be used to augment funds  
11 available to the Company to meet its capital requirements as specified in  
12 Findings of Fact Nos. 3, 4, 6, and 7, hereinabove.

13 9. The letters of credit referred to in the Application and any  
14 evidences of indebtedness arising thereunder are or will be for the purpose of  
15 securing other evidences of indebtedness or securities otherwise authorized and  
16 approved by this Commission.

17 10. The Company's proposed issuances of New Debt, New Preferred Stock  
18 and New Common Stock, and the issuance of Continuing Debt and Continuing  
19 Preferred Stock, are reasonably necessary and appropriate for the purposes of  
20 augmenting the funds available from all sources to finance the Company's  
21 construction program, redeeming or retiring outstanding securities, repaying or  
22 refunding other outstanding long-term debt, and repaying short-term debt which  
23 previously financed construction projects.

24 11. In connection with any New Debt or Continuing Debt, the execution of  
25 one or more new supplemental indentures to the Company's Mortgage and Deed of  
26 Trust, and the issuance or incurrence of any indebtedness in up to a matching  
27 amount as the result of any use of a related letter of credit security device  
28 or other similar arrangements, are also reasonably necessary for such purposes.

1        12. Additionally, capital contributions to the Company's wholly-owned  
2 finance subsidiary which are to be a part of the New Debt or Continuing Debt  
3 are reasonably necessary and appropriate in order to maintain its debt to  
4 equity ratio at satisfactory levels.

5        13. The proposed pollution control financing or financings and the  
6 Company's issuance or; incurrence of indebtedness in connection with such  
7 pollution control financing or financings are reasonably necessary and  
8 appropriate to pay construction costs associated with pollution control  
9 facilities at or related to Palo Verde, to reimburse the Company for such  
10 construction costs previously incurred, and/or to refund any pollution control  
11 financing or financings then in effect.

12        14. The execution of one or more new supplemental indentures to the  
13 Company's Mortgage and Deed of Trust, and the issuance or incurrence of any  
14 indebtedness in up to a matching amount as the result of any use of a related  
15 letter of credit security device, standby bond purchase agreement or other  
16 security arrangements, are also reasonably necessary for such purposes.

17        15. The Company's proposed issuance or incurrence of Authorized  
18 Short-Term Debt is reasonably necessary and appropriate for the purposes of  
19 augmenting funds available to the Company to finance the Company's construction  
20 program, maintaining and providing an adequate level of working capital, and  
21 refunding, refinancing, rolling over, renewing or reissuing any notes or  
22 indebtedness payable at periods of not more than twelve months after the date  
23 issued or incurred and otherwise issued or incurred for proper purposes.

24        16. Additionally, capital contributions to the Company's wholly-owned  
25 finance subsidiary with the proceeds of the Authorized Short-Term Debt are  
26 reasonably necessary and appropriate in order to maintain its debt to equity  
27 ratio at satisfactory levels.

28        17. Certain working capital uses of the proceeds of Authorized

1 Short-Term Debt or any debt refunded by Authorized Short-Term Debt may be  
2 chargeable to operative expenses or to income.

3 18. The Company's proposed issuance of evidences of indebtedness in the  
4 form of borrowings under the Credit Agreement is reasonably necessary and  
5 appropriate for the purpose of augmenting funds available to the Company to  
6 meet its capital requirements as specified in paragraphs 3 and 5 above.

7 19. Certain working capital uses of the proceeds of such borrowings may  
8 be chargeable to operative expenses or to income.

9 20. The Company's proposed issuance of any evidences of indebtedness  
10 arising under letters of credit is reasonably necessary and appropriate for the  
11 purpose of securing other evidences of indebtedness or securities otherwise  
12 authorized and approved by this Commission.

13 21. The Company's proposed issuances of New Debt, New Preferred Stock  
14 and New Common Stock, the issuance of Continuing Debt and Continuing Preferred  
15 Stock, the proposed pollution control financing or financings, the issuance or  
16 incurrence of Authorized Short-Term Debt, and the issuance of any evidences of  
17 indebtedness pursuant to the Credit Agreement or any letter of credit securing  
18 debt of the Company, all as contemplated in the Application, testimony and  
19 exhibits relating to this matter, are compatible with the public interest, with  
20 sound financial practices, and with the proper performance by the Company of  
21 service as a public service corporation and will not impair its ability to  
22 perform that service.

23 22. The Company's proposed issuances of New Debt, New Preferred Stock and  
24 New Common Stock, the issuance of Continuing Debt and Continuing Preferred  
25 Stock, the proposed pollution control financing or financings, the issuance or  
26 incurrence of Authorized Short-Term Debt, and the issuance of any evidences of  
27 indebtedness pursuant to the Credit Agreement or any letter of credit securing  
28 debt of the Company, all as contemplated in the Application, testimony and

1 exhibits relating to this matter, are reasonably necessary or appropriate for  
2 lawful purposes (as set forth above) and such purposes, other than those  
3 relating to the issuance or incurrence of Authorized Short-Term Debt and the  
4 issuance of any evidences of indebtedness pursuant to the Credit Agreement are  
5 not, wholly or in part, reasonably chargeable to operative expenses or to  
6 income, except as set forth at Findings of Fact Nos. 17 and 19, hereinabove.

7 CONCLUSIONS OF LAW

8 1. The Company is a public service corporation within the meaning of  
9 Article XV, of the Arizona Constitution and A.R.S. Sections 40-301 and 40-302.

10 2. The Commission has jurisdiction over the Company and of the subject  
11 matter of the Application.

12 3. The Company's proposed issuance of New Debt, New Preferred Stock and  
13 New Common Stock, the issuance of Continuing Debt and Continuing Preferred  
14 Stock, the proposed pollution control financing or financings, the issuance or  
15 incurrence of Authorized Short-Term Debt, and the issuance of any evidences of  
16 indebtedness pursuant to the Credit Agreement or any letter of credit securing  
17 debt of the Company, are for lawful purposes which are within the Company's  
18 corporate powers.

19 4. The Company's proposed pollution control financing or financings,  
20 the issuance or incurrence of indebtedness in connection therewith, and the  
21 issuance or incurrence of any indebtedness in a matching amount as the result  
22 of any use of a related letter of credit security device, standby bond purchase  
23 agreement or other security arrangements, are for lawful purposes which are  
24 within the Company's corporate powers.

25 5. The Company's financing requests, as well as the other matters set  
26 forth in the Application, exhibits and testimony herein are in the public  
27 interest and should be approved.

28 . . .

ORDER

IT IS THEREFORE ORDERED that the Company is hereby authorized (i) to issue, sell, and incur up to \$400,000,000 in aggregate principal amount of New Debt, to issue, sell and incur the Continuing Debt, and to amend the terms and provisions of outstanding long-term indebtedness, (ii) to issue and sell up to \$75,000,000 in par value of one or more series of New Preferred Stock and, to issue and sell the Continuing Preferred Stock, (iii) to issue and sell up to 2,000,000 shares of New Common Stock (iv) to carry out and effect the proposed Pollution Control Financings and to issue or incur evidences of indebtedness in an amount up to \$75,000,000 in connection therewith, (v) to issue, sell and incur the Authorized Short-Term Debt, (vi) to make borrowings and issue evidences of indebtedness in connection with the Credit Agreement, (vii) to execute and deliver one or more new supplemental indentures or enter into such letter of credit or other security arrangements or agreements as may be deemed appropriate by the Company in connection with the New Debt, Continuing Debt and Pollution Control Financings, and (viii) to pay all related expenses, all as contemplated in the Application and by the exhibits and testimony presented during the hearing in the above-captioned matter.

IT IS FURTHER ORDERED that the operation and effect of any letter of credit securing any indebtedness or security of the Company, as set forth in the Application, is hereby confirmed.

IT IS FURTHER ORDERED that the purposes for which the proposed issuances of New Debt, New Preferred Stock, New Common Stock, and the issuance of Continuing Debt and Continuing Preferred Stock are herein authorized are to augment the funds available from all sources to finance the Company's construction program, to redeem or retire outstanding securities, to repay or refund other outstanding long-term debt, to repay short-term debt which previously financed construction projects and to make capital contributions to

1 the Company's finance subsidiary as necessary to maintain its debt to equity  
2 ratio at a satisfactory level. The proposed issuances in connection with the  
3 New Debt or Continuing Debt of any evidences of indebtedness arising under  
4 letters of credit are for the above purposes and for the purpose of securing  
5 the New Debt and Continuing Debt.

6 IT IS FURTHER ORDERED that the purposes for which the Pollution Control  
7 Financings and the issuance or incurrence of indebtedness in connection  
8 therewith, are herein authorized are to pay construction costs associated with  
9 pollution control facilities at or related to Palo Verde, to reimburse the  
10 Company for such construction costs previously incurred, and/or to refund  
11 pollution control financing or financings then in effect. The proposed  
12 issuances or incurrences in connection with Pollution Control Financings of any  
13 indebtedness as the result of any use of a letter of credit security device,  
14 standby bond purchase agreement or other security arrangements are for the  
15 above purposes and for the purpose of securing the Pollution Control  
16 Financings.

17 IT IS FURTHER ORDERED that the purposes for which the issuance of the  
18 Authorized Short-Term Debt are herein authorized are to augment funds available  
19 to the Company to finance the Company's construction program, to maintain and  
20 provide an adequate level of working capital, to make capital contributions to  
21 the Company's finance subsidiary as necessary to maintain its debt to equity  
22 ratio at a satisfactory level, and to refund, refinance, rollover, renew or  
23 reissue any notes or indebtedness payable at periods of not more than twelve  
24 months after the date issued or incurred and otherwise incurred for proper  
25 purposes regardless of the extent to which they may be reasonably chargeable to  
26 operative expenses or to income.

27 IT IS FURTHER ORDERED that the purposes for which the proposed issuances  
28 of evidences of indebtedness pursuant to the Credit Agreement are herein

1 authorized are to augment funds available from all sources to finance the  
 2 Company's construction program, to redeem or retire outstanding securities, to  
 3 repay or refund other outstanding long-term debt, to repay short-term debt  
 4 which previously financed construction projects, to maintain and provide an  
 5 adequate level of working capital, to make capital contributions to the  
 6 Company's finance subsidiary as necessary to maintain its debt to equity ratio  
 7 at a satisfactory level, and to refund, refinance, rollover, renew or reissue  
 8 any notes or indebtedness payable at periods of not more than twelve months  
 9 after the date issued or incurred and otherwise incurred for proper purposes  
 10 regardless of the extent to which they may be reasonably chargeable to  
 11 operative expenses or to income.

12 IT IS FURTHER ORDERED that this Decision shall become effective  
 13 immediately.

14 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

15  
 16  
 17 CHAIRMAN

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 19  
 20 COMMISSIONER

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 22  
 23 COMMISSIONER

24 IN WITNESS WHEREOF, I, LORRIE DROBNY,  
 25 Executive Secretary of the Arizona Corporation Commission,  
 26 have hereunto set my hand and caused the official seal of  
 27 this Commission to be affixed at the Capitol, in the City of  
 28 Phoenix, this 5th day of November, 1984.

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 31 LORRIE DROBNY  
 32 Executive Secretary

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## Exhibit D

**ARIZONA PUBLIC SERVICE COMPANY**  
**CONDENSED STATEMENTS OF INCOME**  
(Unaudited)

Six Months  
Ended June 30,  
2002

(Dollars in Thousands)

**ELECTRIC OPERATING REVENUES:**

Retail segment.....	\$ 891,452
Marketing and trading segment.....	13,062
Total .....	<u>904,514</u>

**PURCHASED POWER AND FUEL COSTS:**

Retail segment.....	184,643
Marketing and trading segment.....	12,367
Total .....	<u>197,010</u>

<b>OPERATING REVENUES LESS PURCHASED POWER AND FUEL COSTS.....</b>	<u><b>707,504</b></u>
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**OTHER OPERATING EXPENSES:**

Operations and maintenance excluding purchased power and fuel cost.....	232,266
Depreciation and amortization .....	196,812
Income taxes .....	65,274
Other taxes .....	54,376
Total .....	<u>548,728</u>

<b>OPERATING INCOME .....</b>	<u><b>158,776</b></u>
-------------------------------	-----------------------

**OTHER INCOME (DEDUCTIONS):**

Income taxes .....	2,370
Other income .....	3,859
Other expense .....	(9,219)
Total .....	<u>(2,990)</u>

<b>INCOME BEFORE INTEREST DEDUCTIONS .....</b>	<u><b>155,786</b></u>
--	-----------------------

**INTEREST DEDUCTIONS:**

Interest on long-term debt .....	64,038
Interest on short-term borrowings .....	2,299
Debt discount, premium and expense .....	1,340
Capitalized interest .....	(8,093)
Total .....	<u>59,584</u>

<b>INCOME BEFORE ACCOUNTING CHANGE.....</b>	<u><b>96,202</b></u>
---	----------------------

Cumulative Effect of a Change in Accounting for Derivatives -  
net of income tax benefit of \$1,793.....

--

<b>NET INCOME .....</b>	<u><u><b>\$ 96,202</b></u></u>
-------------------------	--------------------------------



**ARIZONA PUBLIC SERVICE COMPANY**  
**CONDENSED STATEMENTS OF INCOME**  
(Unaudited)

Twelve Months  
Ended June 30,  
2002  
(Dollars in Thousands)

**ELECTRIC OPERATING REVENUES:**

Retail segment.....	\$ 2,301,416
Marketing and trading segment.....	87,479
Total .....	<u>2,388,895</u>

**PURCHASED POWER AND FUEL COSTS:**

Retail segment.....	837,661
Marketing and trading segment.....	46,937
Total .....	<u>884,598</u>

OPERATING REVENUES LESS PURCHASED POWER AND FUEL COSTS.....	<u>1,504,297</u>
---	------------------

**OTHER OPERATING EXPENSES:**

Operations and maintenance excluding purchased power and fuel cost.....	462,234
Depreciation and amortization .....	409,366
Income taxes .....	162,506
Other taxes .....	104,709
Total .....	<u>1,138,815</u>

OPERATING INCOME .....	<u>365,482</u>
------------------------	----------------

**OTHER INCOME (DEDUCTIONS):**

Income taxes .....	4,659
Other income .....	9,860
Other expense .....	(19,368)
Total .....	<u>(4,849)</u>

INCOME BEFORE INTEREST DEDUCTIONS .....	<u>360,633</u>
---	----------------

**INTEREST DEDUCTIONS:**

Interest on long-term debt .....	126,336
Interest on short-term borrowings .....	4,230
Debt discount, premium and expense .....	2,655
Capitalized interest .....	(15,233)
Total .....	<u>117,988</u>

INCOME BEFORE ACCOUNTING CHANGE.....	242,645
--------------------------------------	---------

Cumulative Effect of Change in Accounting for Derivatives - net of income tax benefit of \$8,099 and \$1,793.....	<u>(12,446)</u>
--	-----------------

NET INCOME .....	<u>\$ 230,199</u>
------------------	-------------------

**ARIZONA PUBLIC SERVICE COMPANY**  
**CONDENSED BALANCE SHEETS**

**ASSETS**

(Dollars in Thousands)

June 30,  
2002  
(Unaudited)

**UTILITY PLANT:**

Electric plant in service and held for future use.....	\$ 8,134,802
Less accumulated depreciation and amortization .....	3,383,422
Total .....	4,751,380
Construction work in progress .....	308,425
Intangible assets, net of accumulated amortization .....	90,446
Nuclear fuel, net of accumulated amortization .....	51,661
Utility plant - net .....	5,201,912

**INVESTMENTS AND OTHER ASSETS:**

Decommissioning trust accounts.....	208,641
Assets from risk management and trading activities - long-term.....	30,620
Other assets.....	37,514
Total investments and other assets.....	276,775

**CURRENT ASSETS:**

Cash and cash equivalents .....	7,776
Accounts receivable:	
Service customers .....	159,564
Other .....	208,251
Allowance for doubtful accounts .....	(1,450)
Accrued utility revenues .....	110,689
Materials and supplies, at average cost .....	82,300
Fossil fuel, at average cost .....	31,105
Assets from risk management and trading activities .....	9,907
Other .....	43,047
Total current assets .....	651,189

**DEFERRED DEBITS:**

Regulatory assets.....	291,473
Unamortized debt issue costs .....	15,319
Other .....	52,862
Total deferred debits .....	359,654

<b>TOTAL ASSETS.....</b>	<b>\$ 6,489,530</b>
--------------------------	---------------------

**ARIZONA PUBLIC SERVICE COMPANY**  
**CONDENSED BALANCE SHEETS**

**CAPITALIZATION AND LIABILITIES**

(Dollars in Thousands)

	June 30, 2002 (Unaudited)
<b>CAPITALIZATION:</b>	
Common stock .....	\$ 178,162
Additional paid-in capital.....	1,246,804
Retained earnings .....	801,491
Accumulated other comprehensive loss .....	(36,092)
Common stock equity .....	<u>2,190,365</u>
Long-term debt less current maturities .....	<u>2,199,837</u>
Total capitalization .....	<u>4,390,202</u>
<b>CURRENT LIABILITIES:</b>	
Commercial paper .....	198,000
Current maturities of long-term debt .....	451
Accounts payable .....	82,022
Accrued taxes .....	157,385
Accrued interest .....	41,504
Customer deposits .....	33,317
Deferred income taxes .....	3,244
Liabilities from risk management and trading activities .....	21,811
Other .....	73,991
Total current liabilities .....	<u>611,725</u>
<b>DEFERRED CREDITS AND OTHER:</b>	
Deferred income taxes .....	1,011,032
Liabilities from risk management and trading activities - long-term .....	46,996
Unamortized gain - sale of utility plant .....	61,772
Customer advances for construction .....	67,598
Other .....	300,205
Total deferred credits and other .....	<u>1,487,603</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>	
TOTAL LIABILITIES AND EQUITY.....	<u>\$ 6,489,530</u>

**ARIZONA PUBLIC SERVICE COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS**

(Unaudited)

Six Months Ended  
June 30,  
2002  
(Dollars in Thousands)

<b>Cash Flows from Operating Activities:</b>	
Income before accounting change.....	\$ 96,202
Items not requiring cash:	
Depreciation and amortization .....	196,812
Nuclear fuel amortization .....	15,214
Deferred income taxes - net .....	(30,722)
Mark-to-market gains - trading .....	--
Mark-to-market (gains) losses - system .....	(6,697)
Changes in certain current assets and liabilities:	
Accounts receivable - net .....	(31,642)
Accrued utility revenues.....	(34,558)
Materials, supplies and fossil fuel.....	(5,167)
Other current assets.....	(1,038)
Accounts payable .....	(13,522)
Accrued taxes .....	49,790
Accrued interest .....	461
Other current liabilities .....	(39,126)
Increase in regulatory assets.....	(5,992)
Changes in risk management trading investments - at cost.....	(24,030)
Other net long term assets .....	(15,768)
Other net long term liabilities .....	(964)
Net cash flow provided by operating activities.....	<u>149,253</u>
<b>Cash Flows from Investing Activities:</b>	
Trust fund for bond redemption.....	--
Capital expenditures.....	(253,829)
Capitalized interest .....	(8,093)
Other .....	38,808
Net cash flow used for investing activities.....	<u>(223,114)</u>
<b>Cash Flows from Financing Activities:</b>	
Issuance of long-term debt.....	369,930
Short-term borrowings - net.....	26,838
Dividends paid on common stock.....	(85,000)
Repayment and reacquisition of long-term debt.....	(246,952)
Net cash flow provided by (used for) financing activities.....	<u>64,816</u>
Net increase (decrease) in cash and cash equivalents.....	(9,045)
Cash and cash equivalents at beginning of period.....	16,821
Cash and cash equivalents at end of period.....	<u>\$ 7,776</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash paid during the period for:	
Interest (excluding capitalized interest).....	\$ 57,726
Income taxes.....	\$ 48,943

## **Exhibit E**

### **APS Credit Ratings**

	<b><u>Moody's</u></b>	<b><u>S &amp; P</u></b>	<b><u>Fitch</u></b>
Senior Secured Debt	A3	A-	A-
Senior Unsecured Debt	Baa1	BBB	BBB+
Secured Lease Obligation Bonds	Baa2	BBB	BBB
Commercial Paper	P2	A2	F2

## Exhibit F

### Financial Impact of Recapitalization Debt

in (\$000)

#### CURRENT APS

Current APS Debt	\$2,206,780
Weighted Cost of Debt	5.93%
Annualized Long-Term Interest	\$130,862

#### WITH RECAPITALIZATION DEBT

Additional Debt	\$500,000
Additional Interest @ 5.5%	\$27,500
Additional Interest @ 6.0%	30,000
Additional Interest @ 6.5%	32,500

### Financial Indicators

	Per Books June 2002	Proforma (1) + \$500M @ 6%	Rating Agency Approach + \$500M @ 6%	S&P "BBB" Targets Business Position 5
<u>DEBT RATIO</u>				
Adj. Total Debt / Total Capital	54.4%	58.7%	58.7%	47% - 55%
<u>COVERAGE RATIOS</u>				
Pretax Interest Coverage	3.80	3.80	3.10	2.40 - 3.50
Adj. Pre-Interest FFO Interest Cov.	4.53	4.53	3.92	3.00 - 4.00
Adj. FFO / Avg. Total Debt	23%	21%	21%	21% - 27%

**Notes:**

(1) Assumes interest income and interest expense on the \$500M is netted at APS



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INTERVENTION

ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION 2002 SEP 20 P 4: 28

DOCKETED

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

SEP 20 2002

AZ CORP COMMISSION  
DOCUMENT CONTROL

E-01345A-02-0707

DOCKETED BY

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DOCKET NO. E-01345A-02-\_\_

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR  
AN ORDER OR ORDERS AUTHORIZING IT TO  
ISSUE, INCUR, OR ASSUME EVIDENCES OF  
LONG-TERM INDEBTEDNESS; TO ACQUIRE A  
FINANCIAL INTEREST OR INTERESTS IN AN  
AFFILIATE OR AFFILIATES; TO LEND MONEY  
TO AN AFFILIATE OR AFFILIATES; AND TO  
GUARANTEE THE OBLIGATIONS OF AN  
AFFILIATE OR AFFILIATES

MOTION FOR LEAVE  
TO INTERVENE

## APPLICATION OF PANDA GILA RIVER L.P. FOR LEAVE TO INTERVENE

Pursuant to A.A.C. R14-3-105, Panda Gila River, L.P. ("PGR") hereby applies to the Arizona Corporation Commission (the "Commission") for an order granting PGR leave to intervene in the above-captioned proceeding. The Commission should grant PGR leave to intervene in this matter because PGR is directly and substantially affected by these proceedings. PGR has been an intervenor and active participant in each of the Commission's pending dockets concerning electric competition. As a merchant generator, PGR has an interest in how the Commission will address Arizona Public Service Company's ("APS") request to obtain a financial interest in, or guarantee the financial obligations of, its unregulated affiliate, Pinnacle West Energy Corporation ("PWEC") and/or its parent company, Pinnacle West Capital Corporation ("PWCC"). Despite the Commission's decision to stay the transfer of APS's generation to PWEC, PWEC and PGR remain wholesale competitors seeking to provide power for APS's standard offer retail customers. The relief afforded APS in this docket, if any, could have a substantial impact on Electric Competition, including, without limitation, PWEC's ability to compete to provide generation to APS's Standard Offer customers.

1           Therefore, PGR has an interest in ensuring that the APS application does not adversely  
2           “affect the amount, timing, and manner of the competitive procurement process” as detailed in the  
3           tenth ordering paragraph of Commission Decision No. 65154 (Track A Order). Indeed, the goal  
4           of the Track B solicitation process is to produce an equitable, auditable and transparent method of  
5           power procurement that will benefit consumers in Arizona. To what extent APS's ratepayers may  
6           have to shoulder the financial burden of APS's unregulated affiliates (PWEC and PWCC) could  
7           very well have a substantial effect on the competitiveness of Arizona's wholesale market and is  
8           one of the issues the Commission will have to address in this docket. It follows, therefore, that  
9           PGR's intervention will not unduly broaden the proceedings.

10           For the reasons outlined above, PGR respectfully requests that the Commission grant its  
11           Motion for Leave to Intervene in this matter. The name, address and telephone number of the  
12           person(s) upon whom service of all documents is to be made is:

13                           Jay L. Shapiro  
14                           FENNEMORE CRAIG, P.C.  
15                           3003 North Central Avenue  
16                           Suite 2600  
17                           Phoenix, Arizona 85012  
18                           (602) 916-5421

19                           Larry F. Eisenstat  
20                           Michael R. Engleman  
21                           Frederick D. Ochsenhirt  
22                           Dickstein Shapiro Morin & Oshinsky LLP  
23                           2101 L Street, N.W.  
24                           Washington, DC 20037  
25                           Telephone: 202-828-2224  
26                           Fax: 202-887-0689



1 RESPECTFULLY SUBMITTED this 20th day of September, 2002

2 FENNEMORE CRAIG, P.C.

3  
4 By: 

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Attorneys for Panda Gila River, L.P.

12 ORIGINAL and 10 copies of the  
13 foregoing hand-delivered for  
14 filing this 20th day of  
September, 2002, to:

15 Docket Control  
16 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

17 Chris Kempley, Chief Counsel  
18 ARIZONA CORPORATION COMMISSION  
Legal Division  
19 1200 West Washington  
Phoenix, Arizona 85007

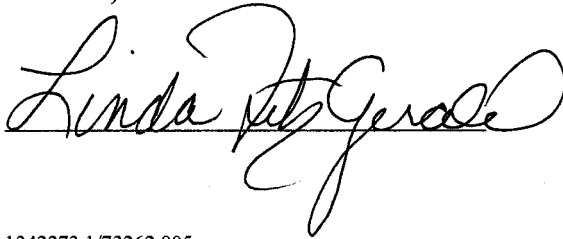
20 Ernest G. Johnson  
21 Director, Utilities Division  
ARIZONA CORPORATION COMMISSION  
22 1200 West Washington  
Phoenix, Arizona 85007

23 Lyn Farmer, Chief Administrative Law Judge  
24 Hearing Division  
ARIZONA CORPORATION COMMISSION  
25 1200 West Washington  
Phoenix, Arizona 85007  
26

1 COPY of the foregoing mailed  
2 this 20th day of September, 2002, to:

3 Jeffrey B. Guldner  
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